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educational environment for California's kids*

## **School Facility Needs Assessment Grant Program Emergency Repair Program**

# **Audit Guide**

**A guide to assist with program reporting requirements**

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# SECTION 1

## Reporting Requirements and Audit Overview

### Overview

These expenditure reporting guidelines were developed by the Office of Public School Construction (OPSC) to assist Local Education Agencies (LEAs) in meeting program reporting requirements for the School Facility Needs Assessment Grant Program (SFNAGP) and the Emergency Repair Program (ERP).

Senate Bill 6, Chapter 899, Statutes of 2004 (Alpert), established the SFNAGP and ERP. The funding is available to schools identified by the California Department of Education (CDE) that rank in deciles one, two, or three based on the 2003 Academic Performance Index (API), and that were newly constructed prior to January 1, 2000. Under Senate Bill 6, the State Allocation Board (SAB) is given the authority to audit expenditure reports and LEA records in order to assure State funds are expended in accordance with program requirements and applicable State law.

The OPSC, as the SAB's administrative arm, is charged with conducting the SFNAGP and ERP expenditure audits. The OPSC's oversight responsibilities focus on verifying that a project funded or reimbursed through the SFNAGP and ERP followed all applicable state laws, and that the expenditures made by the LEAs complied with Education Code Sections (17592.71 through 17592.73) and Regulation Sections (1859.300 through 1859.329).

LEAs are to complete the Expenditure Report, Form SAB 61-02, to report all expenditures made with the Needs Assessment Grant funds on a LEA-wide basis which is to be submitted to the OPSC by January 1, 2007. In order to have a successful audit LEAs are advised to retain all project information. Regulation Sections 1859.316 and 1859.326 requires the OPSC staff to perform a review of the LEA's certifications and expenditure to verify compliance with the program requirements.

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## SECTION 2

# School Facilities Needs Assessment Grant Program Expenditure Audit

### School Facilities Needs Assessment Grant Program Overview – Specific

Funds under this program will be allocated to allow for a one-time comprehensive school facilities needs assessment to be conducted. Any LEA that receives these funds shall be required to complete and submit a Web-based Needs Assessment Report, Form SAB 61-01, to the OPSC for each school site that meets the following requirements, as set forth in Regulation Section 1859.311:

- » The school is identified by the CDE as ranked in deciles one, two, or three based on the 2003 API.
- » The school was newly constructed prior to January 1, 2000.

Pursuant to Section 1859.312, the Board shall allocate ten dollars (\$10) per pupil, according to the 2003 California Basic Enrollment Data Report, for each school site identified by the CDE, or a minimum allocation of seven thousand five hundred dollars (\$7,500) per site. The grant amount not required to perform the needs assessment may be used towards the recommended work in the Needs Assessment Report. The grant amount not required for the needs assessment and the work identified on the needs assessment will be returned to the State and applied to the ERP.

The LEA is to only use the SFNAGP funds for the following:

- » Unbudgeted administrative or third party costs incurred as a result of performing the Needs Assessment.
- » Repairs necessary as listed in Part V of the Web-based Needs Assessment Report, Form SAB 61-01, (such as roofing, flooring, HVAC repair/replacement, etc.) at any eligible school site within the LEA where a Needs Assessment has been completed.

### Audit Documentation Requirements

In order for districts participating in the SFNAGP to proceed through the closeout process successfully, documentation must be retained that justifies the reported expenditures. Documentation that provides evidence of the inspector/architect qualifications, construction contracts, purchase orders, warrants, invoices, and any other type of agreements entered into by the district to receive services to mitigate the health and safety issue needs to be made available to the OPSC for the closeout audit. The documentation that is to be retained must contain sufficient information to convey to the project auditor the qualifications of the inspector/architect and the nature of the work performed by the vendor, and that the work is specific to the project receiving reimbursement.

Please be advised that school board minutes may be requested in order to determine the legality of contracts entered into on an emergency basis.

## Expenditure Audit Reporting Requirements

Eligible schools that receive a Needs Assessment Grant shall submit to the OPSC a signed and dated Certification of Eligibility. Once eligibility has been verified, a fund release will be processed for all eligible sites. All LEAs will complete a Web-based Needs Assessment Report, Form SAB 61-01, for each applicable site and submit it to the OPSC by January 1, 2006. All expenditures made with SFNAGP funds must be reported on the Expenditure Report, Form SAB 61-02, and submitted to the OPSC by January 1, 2007. Only one expenditure report needs to be submitted for all eligible sites. The expenditure portion of the form should reflect all expenditures by payee, amount, and a detailed description of the expenditures sufficient for the auditor to determine the nature of the expenditure.

## Expenditure Audit

The audit consists of verifying the qualifications of the person performing the needs assessment, verifying eligible expenditures, and determining that the amount reported on the Expenditure Report, Form SAB 61-02, agrees with the actual project expenditures. Supporting documentation will be requested by the LEA that supports the qualifications of the inspector and any related expenditures. A detailed examination of the certifications made by the LEA on both the Web-based Progress Report Survey, Form SAB 61-01, and the Expenditure Report, Form SAB 61-02, will be made. The certifications include, but are not limited to:

- » The LEA complied with the California Public Contract Code Section 20103.8 requirements governing bidding and contracting for construction work.
- » The LEA complied with the California Public Contract Code requirements pertaining to the use of Force Account Labor, if applicable.
- » The person used by the LEA to perform the needs assessment must have general knowledge of school facilities construction, operation and maintenance and either of the following: 1) an architect, engineer or general contractor licensed under California law; or 2) three years experience with cost estimation and life-cycle analysis, as outlined in Regulation Section 1859.314. The person(s) meeting or being supervised by individuals that meet the conditions of 1 or 2 above, are able personally to conduct the assessment of the school site(s). The individual(s) performing or supervising the Needs Assessment must be independent third parties and may not be employee(s) of the LEA with jurisdiction over the school site for which the assessment was performed.
- » The LEA has satisfied the supplement, not supplant requirement as defined in Regulation Section 1859.318 when expending the funds after completion of the Needs Assessment.
  - 1) *If participating in the School Facility Program the district must deposit the funding level required pursuant to EC Section 17070.75 in the Restricted Routine Maintenance Account.*
  - 2) *If participating in the Deferred Maintenance Program, deposit the maximum amount pursuant to EC 17584.*
  - 3) *If either 1) or 2) are not applicable, the district must budget an amount not less than the average maintenance budget for the three previous fiscal years.*

Once an audit has commenced, the OPSC has six months to complete the audit unless documentation requested of the district has not been received.

Should the OPSC conduct an audit of the expenditures and certifications, pursuant to Regulation Section 1859.316 and make a finding that some or all of the expenditures were not made in accordance with the provisions of Section 1859.313, the OPSC shall recommend to the Board that the apportionment be adjusted based on the audit findings..

## SECTION 3

# Emergency Repair Program Expenditure Audit

### Emergency Repair Program Overview

The funds under this program will provide reimbursement of costs for emergency repairs to mitigate conditions that pose a threat to the health and safety of pupils or staff. The OPSC may request minutes from the school board declaring that the repair/replacement is necessary because it poses a threat to the health and safety of pupils or staff while at school. Eligible LEAs are advised that they will be required to submit an Application for Reimbursement and Expenditure Report, Form SAB 61-03.

### Audit Documentation Requirements

In order for districts participating in the ERP to proceed through the closeout process successfully, documentation must be retained that justifies the reported expenditures. Documentation such as construction contracts, purchase orders, warrants, invoices, and any other type of agreements entered into by the district to receive services to mitigate the health and safety issue needs to be made available to the OPSC for the closeout audit. The documentation that is to be retained must contain sufficient information to convey to the project auditor the nature of the work performed by the vendor, and that the work is specific to the project receiving reimbursement.

Please be advised that school board minutes may be requested in order to determine the legality of contracts entered into on an emergency basis.

### Expenditure Audit Reporting Requirements

ERP projects are subject to audit in order to ensure that the expenditures were made in accordance with the provisions of Sections 1859.323 through 1859.325, inclusive. After a final apportionment has been made, the OPSC will notify the LEA that an audit of the expenditures will commence in the next six months. The OPSC shall complete this audit within six months of the notification unless additional information requested from the LEA has not been received.

### Expenditure Audit Reporting Requirements – Specific Guidelines

When an LEA submits the required Application for Reimbursement and Expenditure Report, Form SAB 61-03, it is important for the LEA to report the information as accurately as possible. Specifically, the Application for Reimbursement and Expenditure Report, Form SAB 61-03, Part A, Number 8, should reflect the planning cost, repair/replacement cost, testing cost, inspection cost, and total reimbursement cost for the project.

Part B of the Expenditure Report should reflect all expenditures by date, payee, warrant numbers, and a detailed description. The description of the expenditures must be as detailed as possible in order for the audit staff to verify that the project expenditures reported are reasonable and applicable to the project.

When an LEA bids multiple ERP projects together, a Application for Reimbursement and Expenditure Report, Form SAB 61-03, will be necessary for each ERP project.

## Expenditure Audit

All ERP projects are subject to audit. The audit consists of verifying the eligibility of work performed and the amounts reported on the Application for Reimbursement and Expenditure Report, Form SAB 61-03. The expenditure report portion of the form will be verified to ensure costs are categorized correctly based on the description/purpose. Documentation will be requested from the LEA to verify that the expenditures were not reported in error.

A more detailed examination of the certifications made by the LEA, work eligibility, and verification of expenditures reported on the Application for Reimbursement and Expenditure Report, Form SAB 61-03, will be made. Verification that all applicable laws governing public construction projects will also be conducted. The verification includes reviewing documentation that substantiates the LEA met the following legal requirements:

- » The LEA complied with the California Public Contract Code Section 20103.8 requirements governing bidding and contracting for construction work.
- » The LEA complied with the California Public Contract Code requirements pertaining to the use of Force Account Labor, if applicable.
- » The LEA has satisfied the supplement, not supplant requirement as defined in Regulation Section 1859.328. Once the project is audited, the OPSC will be verifying that the district made the required deposits into the Deferred Maintenance and Restricted Maintenance accounts. In addition, the district may be asked to provide its plan for the maintenance budgets. The OPSC does not define the format for these plans. Districts can provide the plan in a format that is already in place at the district level.

Should the OPSC conduct an audit of the expenditures and certifications and make a finding that some or all of the expenditures were not made in accordance with the provisions of EC Section 17592.72(c) and Regulation Sections 1859.323 through 1859.325, inclusive; the OPSC shall recommend to the Board that the apportionment be adjusted based on the audit findings.

## SECTION 4

# Eligible Expenditures

Eligible ERP projects are the minimum necessary to mitigate the emergency facility needs, i.e., structures or systems that are in a condition that pose a threat to the health and safety of pupils or staff while at school. These projects may include, but are not limited to, the following:

- a) Fixing gas leaks.
- b) Repairing or replacing nonfunctioning heating, ventilation, fire sprinklers, or air-conditioning systems.
- c) Fixing electrical power failure.
- d) Fixing major sewage line stoppage.
- e) Abating major pest or vermin infestation.
- f) Fixing broken windows or exterior doors or gates that will not lock and that pose a security risk.
- g) Abatement of hazardous materials previously undiscovered that pose an immediate threat to pupils or staff.
- h) Fixing structural damage which creates a hazardous or uninhabitable condition.

If the LEA intends to replace a system, full reimbursement of eligible replacement costs shall be provided only if it is more cost-effective to replace rather than repair a structural component or building system. If the request is for replacement components or systems, a cost comparison must be prepared and submitted with the Application for Reimbursement and Expenditure Report, Form SAB 61-03, to the OPSC. Regulation Section 1859.323.1 specifies that it is more cost-effective to replace a structural component or building system when the estimated cost of an eligible repair is at least 75 percent of the cost of replacement.



## SECTION 5

# Ineligible Expenditures

The grants cannot be used for any of the following types of expenditures:

- a) New square footage, components, or building systems that did not previously exist, such as air conditioning systems.
- b) Non-essential repairs, such as repainting.
- c) Cosmetic repairs, such as recarpeting/retiling.
- d) Land acquisition.
- e) Furniture and equipment.
- f) Salaries of LEA employees, except when permitted pursuant to Public Contract Code Section 20114.
- g) Costs covered under warranty or by insurance.
- h) Costs normally borne by others including, but not limited to public utility companies.
- i) Costs to repair or replace facilities with structural damage as a result of disaster, such as flood, fire or earthquake, or other naturally occurring conditions.



## SECTION 6

# Expenditure Audit Response for the SFNAGP and ERP

For both the SFNAGP and ERP, once the expenditure audit has been completed, the audit staff will notify the LEA of its findings. Notification of the audit findings will be made to the LEA in the form of a cover letter and an accompanying audit finding. An attachment may be included if an explanation to the audit findings is necessary.

The LEA will have 30 calendar days to respond to the audit findings, including submitting any additional documentation. If a signed audit finding is not returned and no response is received, the OPSC will move forward to close the project administratively if there is no change in the grant amount. If there is a change to the grant amount, the LEA will be contacted in order to submit any additional documentation or to request a signed audit finding. If there is a change to the grant amount, an SAB item will be prepared and an item presented at the board meeting.

